



City of Santa Barbara
Airport Department

DATE: September 16, 2009
TO: Airport Commission
FROM: Karen Ramsdell, Airport Director
SUBJECT: Proposed Airline Rates and Charges

RECOMMENDATION: That Commission recommend maintaining airline rates and charges for October 1, 2009 to September 30, 2010 at the current rates of Airline Terminal building square foot rate of \$66.81; and landing fees of \$1.98 per thousand pounds of gross landed weight.

DISCUSSION:

Background

The airlines serving Santa Barbara operate under annual Operating Permits rather than Lease Agreements. The Operating Permit establishes rental rates for airline terminal space and landing fees and addresses security and operational requirements. Historically, rates are adjusted based on actual expenditures from the prior year.

Airport Commission recommended and City Council approved maintaining the building rental rate and landing fees for the air carriers for the period October 1, 2008 to September 30, 2009. During fiscal year 2009, Airline building rental exceed budget by 21% and landing fee revenue was 1.4% above budget.

Status of Airline Industry

During 2008, volatile fuel costs, the airline industry's top cost, eliminated profitability for the airlines. The escalating fuel prices did, however, result in capacity reduction. Seating capacity has fallen between 10 and 12 percent nationally, and 25 to 50 percent at many of the nation's top 100 airports.

With the fuel crisis temporarily under control, now the airlines along with other industries are struggling with the U.S. recession and facing warnings of further deterioration. During the last year, the air carriers have taken bold steps to maintain profitability; there has been bankruptcy for some and the threat of liquidation for others. The air carriers have struggled to find new revenue sources, looked for opportunities for fuel conservation, reduced staffing and operational costs, and expanded international flights.

SBA Air Service Changes

As the airline industry seeks profitability, air service nation wide and at Santa Barbara has been impacted. Santa Barbara's seat capacity has been reduced by 13.25% from prior year. In 2008, the six air carriers served 12 non-stop destinations. Currently there are eight, (losing Dallas/Ft. Worth, San Diego, Las Vegas and Portland) non-stop destinations with service from five airlines. With all these changes, it has become essential that staff focus on maintaining air service for Santa Barbara.

When Express Jet ceased all service nationwide on September 1, 2008, Airport staff worked closely with our air service consultant to enlist another carrier to take over the route to Sacramento. Horizon Air accepted the challenge conditioned upon support from the Airport. As part of the Airline Incentive Program, landing fees to Sacramento were waived for the first year.

U.S. Airways ceased direct operations to Las Vegas in May; and Allegiant Air will cease flights to Las Vegas as well on September 13, 2009. Skywest has increased capacity on the flights to San Francisco by using regional jet aircraft and American Eagle added an additional flight to Los Angeles and exchanged their turbo-prop equipment for regional jets.

Proposed 2010 Airline Rates and Charges

The Airport has strived to maintain a low-cost fee structure for the airlines. Rates and charges have been established that reflect actual prior year maintenance and operational costs. In 2008, the cost of the employee shuttle allocated to the airline employees was removed from the building rental calculation and assigned to each airline based on the number of employees. This resulted in a decrease in the square footage rate, but provided full reimbursement for the shuttle expense.

In reviewing the cost differential from fiscal year 2009 with the 2008, the increase is nominal, less than 1.3% with the increases in salaries and benefits for custodians and patrol officers accounting for the majority of the increased costs.

The Financial Feasibility Report prepared by Jacobs Consultancy which was an exhibit to the Official Statement for the bond issue, maintained the current rates through 2010, and recognized a decrease in passenger and seat capacity. It is anticipated that growth will resume in late 2010 calendar year and that it will take 2-3 years to achieve 2007 passenger levels.

Recommendation

Given the uncertainty of the economy and the erosion of air travel demand, staff recommends that the airline rates and charges for 2009-2010 be maintained at the current rates of \$66.81 for the Airline Terminal Building, and landing fees at \$1.98 per thousand pounds of gross landed weight. The cost for employee parking will remain at \$3.74 per day.